

STATE TREASURER'S 2001 POLICY GOALS AND INITIATIVES

POLICY GOALS

California State Treasurer Phil Angelides was sworn into office on January 4, 1999. His key goals are to protect taxpayer funds, to cost-effectively finance schools and other infrastructure that California needs to succeed in the 21st Century, and to invest more in California communities.

What follows is a brief summary of the major 2001 policy initiatives undertaken by the Treasurer in pursuit of these goals. The *State Treasurer's 1999 and 2000 Policy Goals and Initiatives*, as well as this document, can be found at www.treasurer.ca.gov.

POLICY INITIATIVES

SMART INVESTMENTS AND DOUBLE BOTTOM LINE INITIATIVES FRAME STRATEGIC APPROACH TO INVESTMENT

In June 1999, the State Treasurer's Office issued a major public policy initiative – *Smart Investments* – which outlined a strategic and fiscally prudent approach to investment that called for: investments that support livable communities, sustainable development and sound environmental practices; and investments in struggling communities to reverse a dangerous trend toward “two Californias” – one in poverty and the other enjoying economic success. Additionally, the report recommended a more cost-effective approach to infrastructure investment, stronger regional planning, and empowering local communities to invest for their future.

The State Treasurer's Office launched a second initiative, *The Double Bottom Line: Investing in California's Emerging Markets*, in May 2000 as a follow-up to *Smart Investments*. *The Double Bottom Line* calls on the public sector – from public pension plans to state and local governments – to invest capital in a way that meets “the double bottom line” goals of achieving successful investment results while simultaneously broadening economic opportunity in California's at-risk communities. It also calls on the private sector to join the public realm in making investments that can bring new vitality to the State's less prosperous neighborhoods.

Two follow-up reports, *Smart Investments: From Ideas to Action*, issued in October 2000, and *The Double Bottom Line: Investing in California's Emerging Markets – Ideas to Action*, issued in June 2001, summarized the progress made in furtherance of the policies and programs set forth in the *Smart Investments* and *Double Bottom Line* reports. The progress, to date, marks a fundamental shift in State policies, directing more than \$12 billion in State public program resources and investment capital over a three-year period toward the “smart investment” goals of sustainable growth and community revitalization. To read the full reports and updates, go to the Treasurer’s website at www.treasurer.ca.gov.

During 2001, the Treasurer’s Office continued to move forward on a number of fronts to implement the initiatives described in each of the reports (see sections below regarding **Financing California Schools and Infrastructure** and **Investing in California Communities**).

PROTECTING TAXPAYER DOLLARS

■ **Taxpayer Funds Invested With Solid Earnings**

In 2001, despite a turbulent economy, the Treasurer earned a solid return of 4.84 percent for the Pooled Money Investment Account (PMIA), which he oversees. The PMIA, which had approximately \$50 billion in assets as of December 31, 2001, is comprised of the funds of State government and more than 3,000 local jurisdictions. PMIA returns in 2001 were bolstered by the Treasurer’s decision to purchase, since January 1999, \$966 million worth of California-only, Community Reinvestment Act (CRA) home mortgages, which earned 6.57 percent for the year, despite an economic downturn.

Within the PMIA is the Local Agency Investment Fund (LAIF), a voluntary program which allows participating cities, counties, school districts and other local agencies to invest funds through the Treasurer’s Office. As of December 31, 2001, the LAIF had \$18.9 billion under management. The PMIA’s positive earnings record led to voluntary increased investment by local entities of more than \$5.2 billion in 2001 – an expression of confidence in the Treasurer’s money management.

■ **Abusive Bond Practices Halted**

In 2001, as a result of legislative efforts and litigation filed by the Treasurer in conjunction with the Attorney General, abusive bond practices perpetrated on innocent Californians were halted. Such practices included the issuance of bonds by cities to finance a golf course development over 300 miles from those communities, generating lucrative fees for those selling the bonds. These practices endangered the integrity of the bond market; putting an end to them helps ensure that bonds for societal needs such as schools, parks, and many other vital public projects will continue to enjoy the confidence of investors and the public.

Legislation sponsored by the Treasurer and the Attorney General, which took effect January 1, 2001, bars specific abuses and provides better control over public debt issuances. The legislation, coupled with settlement of lawsuits filed by the Treasurer and the Attorney General and investigations and actions by other agencies, have brought troubling practices to an end.

- **Savings Through Streamlining of Services**

In an effort to make government more efficient, the Treasurer overhauled and streamlined the processes undertaken by the Treasurer's Office to service the State's bonds. The reforms will save over \$6 million in public funds.

FINANCING CALIFORNIA SCHOOLS AND INFRASTRUCTURE – BUILDING OUR FUTURE

- **Sponsored Successful Legislation to Create the California Consumer Power and Conservation Financing Authority**

The Treasurer sponsored legislation that created the California Consumer Power and Conservation Financing Authority to ensure sufficient electricity reserves to avoid future price gouging and rolling blackouts; to promote conservation and efficiency; and to develop renewable energy sources that will enhance the State's economic strength.

Created by Senate Bill 6, carried by Senator John Burton, the Authority held its first meeting in August 2001. The legislation authorized the Authority to issue up to \$5 billion in bonds to carry out its mission. Currently, the Authority is ramping up an Energy Resource Investment Plan that could finance 3,500 megawatts of "clean" power over the next four years through a variety of environmentally-friendly methods.

The Treasurer is a member of the Authority's Board of Directors. The Power Authority website is www.capowerauthority.ca.gov.

- **Mobilized Nationwide Coalition to Push for Federal Infrastructure Investment and Revenue Sharing**

In the wake of the economic turmoil that followed the September 11 terrorist attacks, the Treasurer, financier Felix Rohatyn, and New York State Comptroller H. Carl McCall mobilized a nationwide coalition of state and local investment officers and public pension fund managers to develop and advocate specific proposals to boost economic recovery today and to strengthen the economy for the future.

To provide billions of dollars for critical, but unmet, needs for schools, transit networks, roads, water systems and other infrastructure in every state, and to address gaps in state budgets that could easily reach \$75 - \$100 billion next fiscal year, the coalition developed proposals that:

- Call for \$10 billion annually, for the next five years, in federal credit support to finance \$250 billion in infrastructure and economic development projects and to bring sound pension fund investments into this sector.
- Increase financing for private sector projects of public benefit such as affordable housing and pollution clean-up by boosting – by \$5 billion annually over the next three years – the amount of tax-exempt bonds which state and local governments can issue for such purposes.
- Provide temporary and immediate fiscal assistance through enactment of a one-year \$100 billion program of federal revenue sharing to stabilize state and local budgets for infrastructure investment and essential services.

The coalition is presenting the proposals to congressional leaders. Detailed information on the coalition's proposals – *An Investment Strategy for Economic Recovery, January 2002* – may be found at www.treasurer.ca.gov.

■ **Locate State Office Buildings According to Smart Growth Standards**

A two-year legislative effort by the Treasurer and Assemblyman Darrell Steinberg resulted in the Governor signing an Executive Order in September 2001 requiring the Department of General Services (DGS) to use “smart growth” standards when selecting locations for State offices. This new policy, written in consultation with the Treasurer's Office, will enhance the livability of California communities, minimize costs to the State and its taxpayers, improve accessibility to State services and facilities, and reduce traffic congestion.

When siting offices, the Executive Order requires DGS to consider, among other things:

- The proximity of public transit service;
- The availability and proximity of affordable housing;
- Pedestrian access to retail services and opportunities for mixed use development;
- Sites within urban core areas; and
- The need for neighborhood economic revitalization.

A copy of the Executive Order may be found at www.treasurer.ca.gov.

■ **Investors in ScholarShare College Savings Plan Double in 2001**

In 1999, the Treasurer's Office launched the Golden State ScholarShare College Savings Trust, California's first tax-advantaged college savings plan. During 2001, the number of Californians investing in ScholarShare rose from just under 27,000 to over 55,000, with assets under management climbing from \$112 million to over \$273 million.

The *Los Angeles Times* said of ScholarShare, “California's plan is among the nation's best... Parents and grandparents should be beating down the doors to get into this plan.”

More information about ScholarShare can be obtained at www.scholarshare.com.

- **Extra Credit Teacher Home Purchase Program Gets Under Way**

The Extra Credit Teacher Home Purchase Program was created by the Treasurer to attract and retain qualified teachers and principals to serve in low-performing schools. It provides low-interest home loans or tax credits, coupled with downpayment assistance, for credentialed teachers and principals who commit to serving in those schools. Managed by the California Debt Limit Allocation Committee (CDLAC), which is chaired by the Treasurer, the program enjoyed its first full year of operation in 2001, and funding for Extra Credit was increased to nearly \$165 million.

By the end of 2001, over 130 families had become the first homeowners through the Extra Credit program, and more than 100 families had home loans that were projected to close soon.

For program information, go to www.treasurer.ca.gov.

- **Financing Construction and Repair of California Schools**

During 2001, under Proposition 1A of 1998, which authorized school construction bonds, the State Treasurer's Office made available over \$1.8 billion in funds to local schools for construction and repair of their facilities, bringing total funding to more than \$6.2 billion since January 1999. During the period 1999-2001, over 2000 schools have benefited.

INVESTING IN CALIFORNIA COMMUNITIES

- **Increased State Deposits in California Lending Institutions Committed to Community Investment**

Since January 1999 when the Treasurer took office, the State's Pooled Money Investment Account (PMIA) has increased deposits of State funds in California community lending institutions from just under \$2 billion to over \$5 billion, and the number of participating institutions has risen from 35 to 124 as of December 31, 2001.

The program assures a yield to the State that is above the Treasury bill rate, and deposits are more than fully collateralized. These State deposits in local lending institutions committed to community investment increase the funds available for small business and home lending in California neighborhoods.

- **CalPERS and CalSTRS Adopt Goals for Investment in California's Emerging Markets**

In October 2001, the Treasurer sponsored an initiative, adopted by both the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), to establish a goal of investing 2 percent of their portfolios – currently a combined total of approximately \$5 billion – in California's

underserved communities, or “emerging” markets. These markets include urban and rural communities in California that were left behind during the economic expansion of the 1990s, as described in the *Double Bottom Line*. All investments must meet the strict fiduciary obligations and guidelines that apply to the CalPERS and CalSTRS portfolios.

- **\$475 Million “California Initiative” Targeted to State’s Underserved Communities**

Consistent with the Treasurer’s recommendation in the *Double Bottom Line*, a \$475 million initiative that targets investment in the State’s underserved urban and rural communities was launched in May 2001 by the California Public Employees’ Retirement System (CalPERS). The pension fund kicked off the new program by entering into partnership with 11 venture capital and private equity firms that will invest, along with CalPERS, in businesses locating and expanding in struggling communities.

The “California Initiative” embraces the “double bottom line” goals of achieving risk-adjusted, market returns for the pension system, while broadening economic opportunity.

- **CalSTRS Joins CalPERS – Committing \$350 million for Investment in Underserved Communities**

As recommended in the Treasurer’s *Double Bottom Line* report, the California State Teachers’ Retirement System (CalSTRS) created a new investment initiative in 2001 – committing \$350 million with the goal of achieving strong investment returns while spurring business expansion in California’s underserved communities.

- **CalReUSE Loan Program to Finance Cleanup of Contaminated Properties**

In 2001, the Treasurer, through the California Pollution Control Financing Authority (CPCFA), which he chairs, launched a \$10 million program to clean up polluted urban properties in California. Oakland was the first local community to be funded as a strategic partner, receiving \$1 million through the California Recycle Underutilized Sites (CalReUSE) Program. The City of Emeryville is slated to receive \$300,000, with others to follow.

The CalReUSE program, enacted in 2000 through legislation carried by Senator Jim Costa, enables the CPCFA to address the growing problem posed by these properties – estimated to number in the tens of thousands across California. Such “brownfield” sites not only pose environmental and health risks, but also represent underutilized economic assets in local communities.

For more information on CalReUSE, go to www.treasurer.ca.gov/cpcf/cpcf.htm.

- **Increased Funding for Local Health Clinics**

In 2000, the Treasurer's Office played a key role in the successful effort to pass the Cedillo-Alarcon Community Clinic Investment Act. The Act provided \$50 million to the California Health Facilities Financing Authority (CHFFA), chaired by the State Treasurer, to make grants to community clinics to expand health services for low-income families, recognizing that basic services, such as healthcare, are a key element of any effective strategy to bridge the growing gap between rich and poor in California.

In 2001, CHFFA approved 225 grant requests totaling over \$42 million, with approximately \$8 million to be distributed in 2002. These funds have leveraged an additional \$56 million in capital for clinic projects, and will make it possible for community clinics to handle an additional 577,000 visits annually by poor and uninsured patients.

Also, recognizing the difficulty small health facilities have in obtaining adequate financing for their capital needs, the Treasurer established HealthCAP – a partnership between CHFFA and the National Cooperative Bank Development Corporation that provides loans of up to \$1 million for nonprofit corporations or public health facilities. Under the program, each dollar of State funding leverages \$10 in private sector lending.

Information on HealthCAP may be found at www.treasurer.ca.gov/chffa/programs.htm.

- **Increased State Tax Credits for Affordable Housing**

Following a successful effort in 2000 to win passage of federal legislation that increased federal tax credits and tax-exempt financing for affordable housing, the Treasurer sponsored legislation by Senator Joe Dunn in 2001 that raised the State Low-Income Housing Tax Credit from \$50 million to \$70 million annually.

The expanded State tax credits annually will create housing for an additional 900 families, leverage \$66 million in other housing funds, create an additional 1,550 jobs, generate approximately \$160 million in new business activity, and create \$6.9 million in State and local tax revenue. Since 1987, when it began, the tax credit program has produced over 100,000 quality, affordable housing units.

The tax credit program is administered through the California Tax Credit Allocation Committee (CTCAC), which is chaired by the Treasurer.

Information on the tax credit program may be found at www.treasurer.ca.gov/ctcac/ctcac.htm.